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Notes to the Financial Statements

NOTE 1.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The general purpose financial statements present information on the financial activities of the State of California over which the Governor, the Legislature, and other elected officials have direct or indirect governing and fiscal control. As required by generally accepted accounting principles, these financial statements present the government and its component units.

Component units are organizations which are legally separate from the State but for which the State is financially accountable, or for which the nature and significance of their relationship with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. The decision to include a potential component unit in the State's reporting entity is based on several criteria including legal standing, fiscal dependency, and financial accountability. The following is a brief review of the two types of component units, blended and discretely presented, using these criteria.

1. Blended Component Units

Blended component units, although legally separate entities, are, in substance, part of the government's operations. Data from these units are combined with data of the primary government.

Building Authorities have been created through the use of Joint Exercise of Powers Agreements with various cities to finance the construction of state buildings. The building authorities are legally separate from the State of California. They meet the criteria of blended component units and are being reported as capital projects funds. As a result, the capital lease arrangements between the building authorities and the State of \$320 million have been eliminated from the combined balance sheet. Instead, only the underlying fixed assets and the debt used to acquire them are reported in the appropriate account groups (see Note 25).

2. Discretely Presented Component Units

Component units that are discretely presented in the general purpose financial statements are reported in separate columns in the combined financial statements to emphasize that they are legally separate from the state government. Discretely presented component units primarily provide services to entities and individuals outside the State. For ease of presentation, discretely presented component units other than the University of California are included in the statements under the heading of Special Purpose Authorities.

The **University of California** was founded in 1868 as a public, state-supported, land grant institution. It was written into the State Constitution of 1879 as a public trust to be administered by a governing board, the Regents of the University of California. Though the University of California is legally separate from the State, it is a component unit of the State because the State appoints a voting majority of the Regents of the University of California, and expenditures for the support of various University of California programs and capital outlay are appropriated by the annual Budget Act. The University of California is discretely presented in the financial statements. Information about the University of California concerning the definition of the financial reporting entity and the summary of significant accounting policies are provided in Note 26A.

Special Purpose Authorities are legally separate from the State. These authorities are presented in three separate categories: State Compensation Insurance Fund (SCIF), California Housing Finance Agency (CHFA), and Non-Major Component Units. SCIF and CHFA component units are considered major component units for financial reporting purposes, and are thus shown separately in the notes while all other component units are shown in the Non-Major Component Units category. The inclusion of these authorities in the State's general purpose financial statements reflects the State's financial accountability for them. Information about special purpose authorities concerning the definition of the financial reporting entity and the summary of significant accounting policies are provided in Note 26B.

B. Basis of Presentation

The accompanying financial statements present the financial position and the results of operations of the State for the year ended June 30, 1996. The financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

The State recognizes the distribution of food stamp benefits as revenue and expenditures in the special revenue fund type, as required by GASB. Revenue and expenditures are recognized when the benefits are distributed to the recipients. Food stamp balances held by the counties are reported as an asset and offset by deferred revenue. Revenues, expenditures, and balances of food stamp benefits are measured based on face value.

C. Fund Accounting

The accounts of the State of California are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting

device to account for certain assets and liabilities of the governmental funds that are not recorded directly in those funds.

The financial activities of the State accounted for in the accompanying financial statements have been classified as follows:

Governmental Fund Types are used primarily to account for services provided to the general public without charging directly for those services. The State has three governmental fund types:

The *General Fund* is the main operating fund of the State. It accounts for transactions related to resources obtained and used for those services that do not need to be accounted for in another fund.

Special Revenue Funds account for transactions related to resources obtained from specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

Capital Projects Funds account for transactions related to resources obtained and used to acquire or construct major capital facilities.

Proprietary Fund Types present financial data on state activities that are similar to those found in the private sector. Users are charged for the goods or services provided. Pursuant to GASB Statement No. 20, the State of California applies all applicable GASB pronouncements as well as all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, unless the pronouncements conflict with or contradict GASB pronouncements for its proprietary funds. However, the State of California has elected not to apply FASB Statements and Interpretations issued after November 30, 1989, with one exception. The exception is the Prison Industries Revolving Fund (an internal service fund), which has elected to follow FASB pronouncements issued after November 30, 1989, unless they conflict with or contradict GASB pronouncements. The proprietary fund types are as follows:

Enterprise Funds account for goods or services provided to the general public on a continuing basis either: (1) when the State intends that all or most of the cost involved is to be financed by user charges, or (2) when periodic measurement of the results of operations is appropriate for management control, accountability, capital maintenance, public policy, or other purposes.

Internal Service Funds account for goods or services provided to other agencies, departments, or governments on a cost-reimbursement basis.

Fiduciary Fund Types are used to account for assets held by the State. The State acts as a trustee or as an agent for individuals, private organizations, other governments, or other funds. The fiduciary fund types are as follows:

Expendable Trust Funds account for assets held in a trustee capacity when both principal and income (earnings on principal) may be expended in the course of a fund's designated operations.

Pension Trust Funds account for transactions, assets, liabilities, and net assets available for plan benefits of the retirement systems. The provisions of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* have been implemented. However, the provisions of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* which are effective for periods beginning after June 15, 1997, have not been implemented.

Agency Funds account for assets held by the State, which acts as an agent for individuals, private organizations, other governments, or other funds. They are custodial in nature and do not measure the results of operations.

Account Groups are used to establish control over and accountability for the government's general fixed assets and general long-term obligations. The account groups are as follows:

The General Fixed Assets Account Group accounts for governmental fixed assets not reported in a proprietary fund or a trust fund.

The General Long-Term Obligations Account Group accounts for unmatured general obligation bonds and other long-term obligations generally expected to be financed from governmental funds.

D. Measurement Focus and Basis of Accounting

Governmental Fund Types and **Expendable Trust Funds** are presented using the flow of current financial resources measurement focus. With this measurement focus, operating statements present increases and decreases in net current assets; the unreserved fund balance is a measure of available spendable resources.

The accounts of the governmental fund types and expendable trust funds are reported using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded as they become measurable and available, and expenditures are recorded at the time the liabilities are incurred. Principal tax revenues susceptible to accrual are recorded by the State as taxpayers earn income (personal income and bank and corporation taxes), as sales are made (consumption and use taxes), and as the taxable event occurs (miscellaneous taxes), net of estimated tax overpayments. Other revenue sources are recorded when they are earned or when they are due, provided they are measurable and available within the ensuing 12 months.

Compensated absences are accounted for on a modified accrual basis of accounting. The liability for earned leave of academic-year

faculty of the California State University and the special schools of the California State Department of Education is accrued at June 30, as explained in Note 1J. No additional expenditures are accrued since it is not anticipated that compensated absences will be used in excess of a normal year's accumulation.

Agency Funds are custodial in nature and do not measure the results of operations. Assets and liabilities are recorded using the modified accrual basis of accounting.

Proprietary Fund Types and Pension Trust Funds are accounted for on the flow of economic resources measurement focus.

The accounts of the proprietary fund types and pension trust funds are reported using the accrual basis of accounting. Under the accrual basis, revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Lottery revenue and the related prize expense are recognized when sales are made. Certain prizes are payable in deferred installments. Such liabilities are recorded at the present value of amounts payable in the future.

For purposes of the statement of cash flows, the State considers all cash and pooled investments in the State's pooled investment program, as discussed in Note 3, to be cash and cash equivalents.

E. Inventories

Inventories are primarily stated at either the lower of average cost or market, or at cost utilizing the weighted average valuation method. In governmental fund types, inventories are recorded as expenditures when purchased. In proprietary fund types, inventories are expensed when consumed.

F. Net Investment in Direct Financing Leases

The State Public Works Board has entered into lease-purchase agreements with various state agencies, the University of California, and community colleges (see Note 6). The payments from these leases will be used to satisfy the principal and interest requirements of revenue bonds issued by the State Public Works Board to finance the construction of facilities for correctional and higher educational institutions, as well as energy efficiency projects for various state agencies. Upon expiration of these leases, jurisdiction of the facilities and projects will be with the respective institution, agency, or community college.

The State Public Works Board has entered into various capital lease agreements with the University of California, and in addition issues revenue bonds to finance the construction of these leased facilities. The State Public Works Board, which is audited by other auditors, records the net investment in direct financing leases at the net present value of the minimum lease payments.

G. Deferred Charges

The deferred charges account in the enterprise fund type primarily represents operating and maintenance costs and unrecovered

capital costs that will be recognized as expenses over the remaining life of long-term state water supply contracts. These costs are billable in future years. In addition, the account includes unbilled interest earnings on unrecovered capital costs that are recorded as deferred charges. These charges are recognized when billed in future years under the terms of the state water supply contracts.

H. Fixed Assets

The **General Fixed Assets Account Group** includes capital assets that are not assets of any specific fund, but rather of the government as a whole. Most of these assets arise from the expenditure of the financial resources of governmental funds and expendable trust funds used to acquire or construct them. The General Fixed Assets Account Group does not include fixed assets of proprietary funds or pension trust funds. These fixed assets are accounted for in their respective funds.

The General Fixed Assets Account Group is presented in the financial statements at cost or estimated historical cost. Donated fixed assets are stated at fair market value at the time of donation. Interest during construction has not been capitalized. Also, public domain or "infrastructure" fixed assets are not capitalized. Accumulated depreciation is not recorded in the General Fixed Assets Account Group. Purchased fixed assets are stated at historical cost.

The asset capitalization policy was changed effective November 14, 1995. Previously, property was capitalized if it had a normal useful life of four years and a unit acquisition cost of \$500 for tangible property, and \$5,000 for intangible property. Under the new policy, both tangible and intangible property are capitalized if the property has a normal useful life of at least one year and a unit acquisition cost of at least \$5,000. Existing assets that no longer met the new capitalization threshold were removed from the General Fixed Assets Account Group. The change in the asset capitalization policy resulted in a decrease in fixed assets of \$732 million, as demonstrated in Note 7.

Proprietary Fund Type fixed assets, consisting of property, plant, and equipment, are stated at cost at the date of acquisition, less accumulated depreciation (see Note 7). They are depreciated over their estimated useful lives, ranging from three to 100 years using the straight-line method of depreciation. Water projects, which represent 60.4% of the fixed assets of the enterprise funds, are depreciated over their service lives, ranging from 30 to 100 years. Toll bridges and California State University dormitory facilities, which represent 18.4% and 12.3% respectively of the fixed assets of the enterprise funds, are not depreciated.

I. Long-Term Obligations

The State reports long-term obligations of governmental funds in the General Long-Term Obligations Account Group. Long-term obligations consist of unmatured general obligation bonds, certain unmatured revenue bonds, long-term capital lease obligations and certificates of participation, commercial paper, the liability for

pension obligations, the liability for employees' compensated absences and workers' compensation claims, amounts owed for lawsuits, and the State's share of the University of California pension liability.

With approval in advance from the Legislature, certain authorities and state agencies may issue revenue bonds. Principal and interest on revenue bonds are payable from the pledged revenues of the respective funds of the authorities and agencies listed in Note 15. The General Fund has no legal liability for payment of principal and interest on revenue bonds. With the exception of the building authorities, which are included in capital projects funds, the liability for revenue bonds is recorded in the respective fund.

J. Compensated Absences

The amounts of vested unpaid vacation accumulated by state employees are accrued when incurred in proprietary funds, which use the accrual basis of accounting. In the governmental funds, only the amounts of compensated absences that normally would be liquidated with expendable available financial resources are accrued as current-year expenditures, such as costs associated with academic-year faculty of the California State University and the special schools of the California State Department of Education. The costs of the academic-year faculty represent services rendered over a ten month period but are paid over a 12-month period. The balance of the amounts owed for services rendered are reported as a current liability in the State's General Fund. Unless it is anticipated that compensated absences will be used in excess of a normal year's accumulation, no additional expenditures are accrued. As a result, the unpaid liability for governmental funds is recorded in the General Long-Term Obligations Account Group. Accumulated sick-leave balances are not included in the compensated absences because they do not vest to employees. However, unused sick-leave balances convert to service credits upon retirement.

K. Fund Equity

Fund equity accounts present the difference between assets and liabilities of a fund. The fund equity accounts consist of *contributed capital* and *retained earnings* for proprietary funds and certain component units, *investment in general fixed assets* for the General Fixed Assets Account Group and certain component units, and *fund balance* for governmental funds, trust funds, and certain component units.

Contributed capital is the permanent fund capital of a proprietary fund. Contributed capital is created when a residual equity transfer is received by a proprietary fund, when a general fixed asset is "transferred" to a proprietary fund, or when a grant is received that is externally restricted to capital acquisition or construction.

Retained earnings is divided into two sections: *reserved for regulatory requirements* and *unreserved*. The reserved for regulatory requirements represent a segregation of the retained earnings in enterprise funds and certain component units for amounts which

are unavailable for general use as a result of specific legal requirements. Unreserved retained earnings represent the accumulated earnings of proprietary funds and certain component units that are not reserved for any specific purpose.

The fund balances for governmental funds and trust funds are divided into two sections: *reserved* and *unreserved-undesignated*. Part or all of the total fund balance may be reserved as a result of law or generally accepted accounting principles. Reserves represent those portions of the fund balances that are legally segregated for specific uses. The reserves of the fund balance for governmental funds, trust funds, and component units are as follows:

Reserved for encumbrances represents goods and services that are ordered, but not received, by the end of the year.

Reserved for advances and loans receivable represents advances to other funds and the non-current portion of loans receivable that do not represent expendable available financial resources.

Reserved for employees' pension benefits represents pension trust fund reserves, which include accumulated contributions made by employees and employers, and undistributed interest and investment earnings.

Reserved for continuing appropriations represents the unencumbered balance of all appropriations for which the period of availability extends beyond the period covered by this report, the year ended June 30, 1996. These appropriations are legally segregated for a specific future use.

Reserved for other specific purposes includes trust and agency fund amounts of the Unemployment Fund and other expendable trust funds that are not available for future appropriations other than those for which the funds were established.

The *unreserved-undesignated* amounts represent the net of total fund balance, less reserves, for governmental funds and certain component units.

Investment in general fixed assets represents fixed assets of the University of California that are restricted for specific purposes, and the State's investment in capital assets reported in the General Fixed Assets Account Group (see Note 7).

L. Restatement of Beginning Fund Equity

The beginning retained earnings in the enterprise funds have been restated for \$30 million to correct prior year amortization and accruals for revenues and expenses.

M. Guaranty Deposits

The State is custodian of guaranty deposits held to protect consumers, to secure the State's deposits in financial institutions, and to ensure payment of taxes and fulfillment of obligations to the State. Guaranty deposits of securities and other properties are not

shown on the financial statements.

**N. Memorandum Only
Total Columns**

Total columns on the general purpose financial statements are captioned as “memorandum only” because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations, or cash flows in accordance with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

NOTE 2.

BUDGETARY AND LEGAL COMPLIANCE

A. Budgetary Data

The State's annual budget is prepared primarily on a modified accrual basis. The Governor recommends a budget for approval by the Legislature each year. This recommended budget includes estimated revenues; however, revenues are not included in the budget adopted by the Legislature. Under state law, the State cannot adopt a spending plan that exceeds estimated revenues.

Under the State Constitution, money may be drawn from the treasury only through a legal appropriation. The appropriations contained in the Budget Act, as approved by the Legislature and signed by the Governor, are the primary sources of annual expenditure authorizations, and establish the legal level of control at the appropriation level for the annual operating budget. The budget can be amended throughout the year by special legislative action, budget revisions by the Department of Finance, or executive orders by the Governor.

Amendments to the initial budget for the year ended June 30 were legally made, and are included in the budget data in the financial statements. The amendments had the effect of increasing spending authority and expenditures for the year.

Appropriations are generally available for expenditure or encumbrance either in the year appropriated or for a period of three years if the legislation does not specify a period of availability. At the end of the availability period, the encumbering authority for the unencumbered balance lapses. Some appropriations continue indefinitely while others are available until fully spent. Generally, encumbrances must be liquidated within two years from the end of the period when the appropriation is available. If the encumbrances are not liquidated within this additional two-year period, the spending authority for these encumbrances lapses.

Legislative appropriations are based on when commitments for goods and services are incurred. However, for financial reporting purposes, the State reports expenditures based on the year goods and services are received. The budgets reported in the Statements of Revenues, Expenditures, and Changes in Fund Balances, Budgetary Basis–Budget and Actual, have been adjusted to reflect the

differences between the financial reporting methodology and legislative appropriations to correctly state the budget variance. These statements include all the expenditures of the governmental funds and their related appropriations that are authorized annually, continually, or by project. Governmental funds that are budgeted annually include the General Fund, special revenue funds, and capital projects funds.

State agencies are responsible for exercising basic budgetary control and ensuring that appropriations are not overspent. The State Controller's Office is responsible for overall control of appropriations. Actual expenditures did not exceed appropriations. However, for special revenue funds and capital projects funds, estimated prior year expenditure accruals can differ from the actual amount paid in the current year. As a result, expenditure variances from the budget can be favorable or unfavorable.

In contrast, the beginning fund balance of the General Fund on a budgetary basis was restated by \$114 million. This adjustment reflects the difference between the net expenditures and revenues that were accrued the previous June 30 and the amount of actual revenues and net expenditures that were subsequently realized. The beginning fund balance on the GAAP basis is not affected by these adjustments.

The State annually reports its financial condition based on GAAP (GAAP basis) and on the State's budgetary provisions (budgetary basis). The *Budgetary/Legal Basis Annual Report* is prepared in accordance with statutory and regulatory requirements and is used for reporting on the execution of the State's budget.

Financial activities are mainly controlled at the appropriation level but can vary depending on the presentation and wording contained in the Budget Act. Certain items which are established at the category, program, component, or element levels can be adjusted by the Department of Finance. While the financial activities are controlled at various levels, the legal level of budgetary control has been established in the Budget Act at the appropriation level for the annual operating budget.

The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances Budgetary Basis-Budget and Actual and the related combining level and individual fund presentations are not presented in this document at the legal level of budgetary control, as such a presentation would be extremely lengthy and cumbersome. The State of California prepares a separate report, the *Budgetary/Legal Basis Annual Report Supplement*, which includes a statement that demonstrates compliance with the legal level of budgetary control, in accordance with GASB's Codification of Governmental Accounting and Financial Reporting Standards Section 2400.112. This statement, the Statement of Appropriations, Expenditures, and Balances does not include all of the expenditures

and appropriations of the governmental funds. However, it does include the comparison of the annual appropriated budget for governmental funds with expenditures at the legal level of control. A copy of this report, as prepared for the fiscal year ended June 30, 1996, is available from the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, California 94250-5876.

**B. Reconciliation of
Budgetary Basis with
GAAP Basis**

The accounting records of state agencies are maintained on the budgetary basis for the primary purpose of maintaining accountability of the State's budget and other fiscal legislation; these records are used as the basis for audit. After the budgetary basis financial report is prepared, adjustments are made to prepare the GAAP basis financial statements. The Statements of Revenues, Expenditures, and Changes in Fund Balances Budgetary Basis – Budget and Actual are compiled on the budgetary basis for the governmental funds. The differences between budgetary fund balances as shown on these statements, and the fund balances prepared in accordance with GAAP are explained and reconciled in the following paragraphs and Table 1.

Advances and Loans Receivable: Loans made to other funds or to other governments are normally recorded as expenditures on the budgetary basis. However, in accordance with GAAP, these loans are recorded as assets. The General Fund provided loans totaling \$935 million for education that will be forgiven and charged to expenditures in the future on a budgetary basis. On a GAAP basis, these loans are charged to expenditures this year since an agreement was made to forgive the loans. The adjustments related to advances and loans caused a decrease to the fund balance of \$847 million in the General Fund and an increase to the fund balance of \$1.3 billion in special revenue funds.

Escheat Property: Liability for the estimated amount of escheat property ultimately expected to be reclaimed and paid is required to be reported. This adjustment caused a \$240 million decrease to the General Fund balance.

Liabilities Exceeding Available Appropriations: The State does not, on a budgetary basis, accrue liabilities for which there is no existing appropriation or no currently available appropriation. The adjustments made to this account for these liabilities in accordance with GAAP caused a net decrease to the General Fund balance of \$481 million.

Authorized and Unissued Bonds: General obligation bonds that are not self-liquidating are recorded as additions to the fund balance for the special revenue and capital projects funds on the budgetary basis when voters authorize the sale of bonds. However, in accordance with GAAP, only the bonds issued during the year are recorded as bond proceeds. The adjustments related to authorized and unissued bonds caused a decrease to fund balance of \$3.8 billion in special revenue funds and \$3.5 billion in capital projects funds.

Encumbrances: The State does not record certain encumbrances for special revenue funds and capital projects funds on a budgetary basis that are recorded on a GAAP basis. The adjustments related to encumbrances caused an increase of \$400 million in special revenue funds and \$5 million in capital projects funds.

Other: Certain other adjustments and reclassifications are necessary to present the financial statements in accordance with GAAP. The other adjustments caused a decrease in fund balance of \$274 million in the General Fund, \$401 million in special revenue funds, and \$27 million in capital projects funds.

Table 1**Reconciliation of Budgetary Basis and GAAP Basis Fund Balances**

June 30, 1996 (Amounts in thousands)

Reconciliation Items	General Fund	Special Revenue Funds	Capital Projects Funds
Budgetary Basis.....	\$ 1,073,851	\$ 8,078,292	\$ 3,591,766
Advances and loans receivable.....	(847,197)	1,300,670	—
Escheat property.....	(240,323)	—	—
Liabilities exceeding available appropriations..	(480,902)	—	—
Authorized and unissued bonds.....	—	(3,773,380)	(3,519,088)
Encumbrances.....	—	400,134	5,105
Other.....	(274,209)	(400,529)	(27,173)
GAAP Basis (Deficit).....	\$ (768,780)	\$ 5,605,187	\$ 50,610

NOTE 3.**DEPOSITS AND INVESTMENTS**

The State Treasurer's Office administers a pooled investment program. This program enables the State Treasurer's Office to combine available cash from all funds and to invest cash that exceeds current needs. The enterprise, trust and agency funds, and a building authority in the capital projects fund type also make separate investments.

As of June 30, 1996, the average remaining life of the securities in the pooled money investment account administered by the State Treasurer's Office was approximately 291 days.

The State Treasurer's Office also has agreements with certain banks to maintain cash on deposit that does not earn interest income for the State. Income earned on these deposits compensates the banks for services and uncleared checks that are deposited in the State's accounts.

All **Demand and Time Deposits**, totaling approximately

\$638 million, which were held by financial institutions at year end, were insured by federal depository insurance or by collateral held by the State or by an agent of the State in the State's name. The California Government Code requires collateral pledged for demand and time deposits to be deposited with the State Treasurer.

As of June 30, 1996, the State had amounts on deposit with fiscal agents totaling approximately \$15 million. These deposits are related to state investment activities and to principal and interest payments due to bondholders. These deposits are insured by federal depository insurance or by collateral held by an agent of the State in the State's name.

State statutes, bond resolutions, and investment policy resolutions allow the State to have **Investments** in United States government securities, Canadian government securities, certificates of deposit, bankers' acceptances, commercial paper, corporate bonds, bank notes, mortgage loans and notes, other debt securities, repurchase agreements, reverse repurchase agreements, equity securities, real estate, mutual funds, and other investments.

As of June 30, 1996, the State had investments in real estate, investment contracts, annuity contracts, mutual funds, and other investments, totaling \$14.6 billion. These investments are not subject to classification. All remaining investments reported as of June 30, 1996, are categorized in three categories of credit risk:

1. Insured or registered, or securities held by the State or its agent in the State's name.
2. Uninsured and unregistered, with securities held by the counterparty's trust department or by an agent in the State's name.
3. Uninsured and unregistered, with securities held by the counterparty or by its trust department or by an agent but not in the State's name.

The types of investments reported at year end are representative of the types of investments made during the year. Furthermore, the credit risk associated with the investments reported at year end is representative of the credit risk associated with investments made during the year.

The market values of the investments in certain certificates of deposit, commercial paper, bank notes, and repurchase agreements for the pooled investments approximate their carrying values because of the short-term nature of those securities.

The investments of pension trust funds are reported at fair value (see Note 22). Investments of the Deferred Compensation Plan Fund are reported at market value. All other investments are reported at cost or amortized cost. For these investments, no loss is recorded when market values decline below cost, as such declines are considered temporary. Table 2 presents the carrying value and

Table 2**Schedule of State Investments**

June 30, 1996 (Amounts in thousands)

	Category			Carrying Value	Market Value
	1	2	3		
Pooled Investments					
Government Securities:					
U.S. and U.S. agency.....	\$ 10,130,091	\$ —	\$ —	\$ 10,130,091	\$ 10,151,398
Certificates of deposit.....	5,209,165	—	—	5,209,165	5,250,629
Bankers' acceptances.....	577,408	—	—	577,408	578,021
Commercial paper.....	5,991,749	—	—	5,991,749	5,999,363
Corporate bonds.....	2,019,109	—	—	2,019,109	2,011,353
Bank notes.....	1,240,097	—	—	1,240,097	1,247,322
Total Pooled Investments.....	25,167,619	—	—	25,167,619	25,238,086
Separately Invested Funds Subject to Categorization					
Government Securities:					
U.S. and U.S. agency.....	29,509,490	79,337	—	29,588,827	29,734,929
Canadian government.....	1,669,142	—	—	1,669,142	1,669,142
Certificates of deposit.....	3,210	—	—	3,210	3,210
Commercial paper.....	2,205,609	—	—	2,205,609	2,205,609
Corporate bonds.....	15,901,421	—	—	15,901,421	15,901,926
Mortgage loans and notes.....	11,350,931	—	—	11,350,931	11,350,931
Other debt securities.....	768,733	—	—	768,733	768,733
Repurchase agreements.....	4,084	—	—	4,084	4,084
Equity securities.....	71,510,363	—	—	71,510,363	71,510,363
Other investments.....	21,644,275	—	—	21,644,275	21,644,257
Total Separately Invested Funds Subject To Categorization.....	154,567,258	79,337	—	154,646,595	154,793,184
Separately Invested Funds Not Subject to Categorization					
Real Estate.....				7,554,295	7,554,295
Investment contracts.....				1,865,795	1,865,795
Annuity contracts.....				25,230	25,230
Mutual funds.....				2,596,326	2,596,945
Other investments.....				2,530,113	2,530,113
Total Separately Invested Funds Not Subject to Categorization.....				14,571,759	14,572,378
Total Investments.....	\$ 179,734,877	\$ 79,337	\$ —	\$ 194,385,973	\$ 194,603,648

market value of the investments that were reported by the State on June 30, 1996.

At June 30, 1996, floating rate notes and mortgage-backed assets comprised less than 5% of the pooled investments. For the floating rate notes in the portfolio, the interest received by the State will rise or fall as the underlying index rate rises or falls. The structure of the floating rate notes in the State's portfolio is such that it hedges the portfolio against the risk of increasing interest rates. The mortgage-backed securities are called real estate mortgage investment conduits (REMICs), which is a security backed by a pool of mortgages. The REMICs found in the State's portfolio have a fixed principal payment schedule.

The California Government Code allows the State to enter into **Reverse Repurchase Agreements**, as part of its pooled investment program. A reverse repurchase agreement is a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The market value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers a margin against a decline in market value of the securities. If the dealers default on their obligations to resell these securities to the State or provide securities or cash of equal value, the State will suffer an economic loss equal to the difference between the market value plus the accrued interest of the underlying securities and the agreement obligation, including accrued interest. During year ended June 30, 1996, the State entered into 31 reverse repurchase agreements by temporarily selling investments with a carrying value of approximately \$3.6 billion. The maturities of investments made with the proceeds from reverse repurchase agreements were matched to the maturities of the agreements. At June 30, 1996, the State did not have any reverse repurchase agreements outstanding.

NOTE 4.**DUE FROM OTHER FUNDS, DUE TO OTHER FUNDS,
ADVANCES AND LOANS RECEIVABLE, ADVANCES FROM
OTHER FUNDS, DUE FROM PRIMARY GOVERNMENT,
AND DUE TO COMPONENT UNITS**

The balances of Due from Other Funds, Due to Other Funds, Advances and Loans Receivable, Advances from Other Funds, Due from Primary Government, and Due to Component Units are shown in Table 3.

The total Advances and Loans Receivable is \$8.7 billion more than the total Advances from Other Funds, because loans to other governmental entities and individuals are included in the loans receivable amounts. The total Due to Component Units is \$167 million more than the total Due from Primary Government because of accounting practices of the State Compensation Insurance Fund, which is audited by other auditors. The State Compensation Insurance Fund has not recorded \$167 million as Due from Primary Government for reimbursement of the amount of claims received as of June 30 and expected to be paid in the following year.

Table 3**Schedule of Due from Other Funds, Due to Other Funds, Advances and Loans Receivable, Advances from Other Funds, Due from Primary Government, and Due to Component Units**

June 30, 1996 (Amounts in thousands)

	Due from Other Funds	Due to Other Funds	Advances and Loans Receivable	Advances from Other Funds	Due from Primary Government	Due to Component Units
General Fund.....	\$ 4,824,173	\$ 4,205,258	\$ 762,497	\$ 343,378	\$ —	\$ 182,122
Special Revenue:						
Federal.....	150,881	3,305,539	22,909	—	—	3,493
Transportation Construction.....	1,052,259	67,198	109,215	—	—	17,904
Transportation Safety.....	173,647	108,648	—	—	—	25,463
Business and Professions						
Regulatory and Licensing.....	135,793	50,019	7,012	5,557	—	2,538
Environmental and						
Natural Resources.....	252,346	90,296	1,051,001	25,711	—	2,911
Financing to Local Governments.....	13,169	5,455	1,490	—	—	—
Cigarette and Tobacco Tax.....	87,113	122,163	—	—	—	27,966
Local Revenue.....	302,270	27,934	—	—	—	—
Unemployment Programs.....	405,143	36,267	—	—	—	5,371
Financing to the Public.....	44,738	1,129	15,719	—	—	—
Other Special Revenue.....	198,013	346,773	93,324	11,396	—	309
Total Special Revenue.....	2,815,372	4,161,421	1,300,670	42,664	—	85,955
Capital Projects:						
Special Account for Capital Outlay.....	8,049	7,070	—	—	—	—
Prison Construction.....	145	2,922	—	—	—	—
Higher Education Construction.....	574	1,213	—	—	—	—
Natural Resources Acquisition and						
Enhancement.....	25,780	1,298	—	—	—	—
Building Authorities.....	37,987	22,852	—	—	—	—
Other Capital Projects.....	7	198	—	1,138	—	—
Total Capital Projects.....	72,542	35,553	—	1,138	—	—
Enterprise:						
Housing Loan.....	4,499	3,094	2,354,849	134,260	—	—
Water Resources.....	72,215	35,891	79,843	50,312	—	—
School Building Aid.....	—	61,201	191,106	—	—	1,556
Toll Facilities.....	12,506	14,865	6,234	6,160	—	—
California State University.....	11,105	9,855	2,663	2,663	—	—
Leasing of Public Assets.....	119,198	16,335	—	—	—	1,023
State Lottery.....	8,015	189,700	—	—	—	—
Harbors and Watercraft.....	2,455	3,449	195,974	—	—	—
Health Facilities Construction						
Loan Insurance.....	3,909	124	—	—	—	—
Other Enterprise.....	7,745	1,384	27,911	6,382	—	—
Total Enterprise.....	241,647	335,898	2,858,580	199,777	—	2,579
Internal Service:						
Architecture Revolving.....	50,835	16,391	—	—	—	881
Service Revolving.....	78,389	86,856	—	—	—	9,147
Prison Industries.....	28,889	3,049	—	1,278	—	7,219
Stephen P. Teale Data Center.....	18,854	392	—	—	—	701
Health and Welfare Agency						
Data Center.....	46,809	16	—	—	—	—
Water Resources.....	49,990	596	—	91,877	—	936
Other Internal Service.....	2,323	10,610	—	1,731	—	—
Total Internal Service.....	276,089	117,910	—	94,886	—	18,884

(Continued)

Table 3 (continued)**Schedule of Due from Other Funds, Due to Other Funds, Advances and Loans Receivable, Advances from Other Funds, Due From Primary Government, and Due to Component Units**

June 30, 1996 (Amounts in thousands)

	Due from Other Funds	Due to Other Funds	Advances and Loans Receivable	Advances from Other Funds	Due from Primary Government	Due to Component Units
Expendable Trust:						
Unemployment.....	16,949	76,836	—	—	—	—
School Employees.....	2,353	6,778	—	—	—	—
Unemployment Compensation Disability.....	68,616	10,320	—	—	—	—
California State University and Colleges Trust.....	43,753	7,782	—	125	—	—
State Guaranteed Loan Reserve.....	7,501	674	—	—	—	—
Housing Loan.....	2,159	777	491,864	—	—	—
Unclaimed Property Fund.....	29,000	—	240,323	—	—	—
Public Employees Health Care.....	5,615	1,976	—	—	—	—
Other Expendable Trust.....	41,952	10,887	14,000	—	—	—
Total Expendable Trust.....	217,898	116,030	746,187	125	—	—
Pension Trust:						
Public Employees' Retirement.....	1,070,447	—	—	—	—	—
Teachers' Retirement.....	61,291	—	—	—	—	—
Judges' Retirement.....	708	296	—	—	—	—
Legislators' Retirement.....	—	196	—	—	—	—
Volunteer Firefighters' Length of Service.....	—	—	—	—	—	—
Total Pension Trust.....	1,132,446	492	—	—	—	—
Agency:						
Local Agency Investment.....	159,225	55,716	—	—	—	—
Revenue Collecting and Disbursing.....	5,235,525	5,452,679	636,179	644,179	—	—
Deposit.....	19,784	451,080	20,944	456	—	—
Deferred Compensation Plan.....	19,125	332	—	—	—	—
Departmental Trust.....	582	696	—	—	—	—
Other Agency.....	198,254	279,593	2,116	—	—	2,519
Total Agency.....	5,632,495	6,240,096	659,239	644,635	—	2,519
University of California:						
Current Funds.....	1,107	123,502	—	—	111,249	—
Loan Funds.....	—	2,000	—	—	—	—
Endowment and Similar Funds.....	12,896	—	—	—	—	—
Plant Funds.....	745	12,748	—	—	—	—
Retirement System Funds.....	123,502	—	—	—	—	—
Total University of California.....	138,250	138,250	—	—	111,249	—
Special Purpose Authorities:						
State Compensation Insurance.....	—	—	—	—	9,965	—
Housing Finance Agency.....	—	—	3,731,656	—	—	—
Alternative Energy and Advanced Transportation.....	—	—	—	—	—	—
Pollution Control.....	20	—	—	—	2,633	—
Health Facilities.....	2	—	4,478	—	598	—
Educational Facilities.....	—	—	—	—	304	—
School Finance Authority.....	—	—	—	—	—	—
Economic Development.....	—	—	—	—	11	—
District Agricultural Associations.....	717	730	—	—	—	—
San Joaquin River Conservancy.....	—	13	—	—	—	—
Total Special Purpose Authorities..	739	743	3,736,134	—	13,511	—
Total.....	\$ 15,351,651	\$ 15,351,651	\$ 10,063,307	\$ 1,326,603	\$ 124,760	\$ 292,059

(Concluded)

NOTE 5.**RESTRICTED ASSETS**

Table 4 presents a summary of the legal restrictions on assets of the enterprise funds and the purposes for which the assets were restricted as of June 30, 1996.

Table 4**Schedule of Enterprise Fund Restricted Assets**

June 30, 1996 (Amounts in thousands)

	Cash and Pooled Investments	Investments	Due From Other Funds	Other Assets
Debt service.....	\$ 379,248	\$ 271,974	\$ 581	\$ 166
Construction.....	623,431	—	7,500	752
Deposits.....	6,438	—	—	—
Equipment repair and replacement.....	66,233	—	2,393	55
Operations.....	7,221	—	—	—
Other.....	12,300	—	—	—
Total.....	\$ 1,094,871	\$ 271,974	\$ 10,474	\$ 973

On June 30, 1996, \$132,000 in cash and pooled investments of the internal service funds were restricted for property and equipment acquisitions.

NOTE 6.**NET INVESTMENT IN DIRECT FINANCING LEASES**

The State Public Works Board has entered into lease-purchase agreements with various state agencies, the University of California, and community colleges (see Note 12). The payments from these leases will be used to satisfy the principal and interest requirements of revenue bonds issued by the State Public Works Board to finance the construction of facilities for correctional and higher educational institutions and energy efficiency projects for various state agencies. Upon expiration of these leases, jurisdiction of the facilities and projects will be with the respective institution, agency, or community college.

The minimum lease payments to be received are summarized in Table 5.

Table 5
Schedule of State Public Works Board Lease Purchase Agreements
 (Amounts in thousands)

Year Ending June 30	State Agencies	University of California	Community Colleges	Total
1997.....	\$ 315,657	\$ 95,356	\$ 35,033	\$ 446,046
1998.....	323,389	97,106	37,297	457,792
1999.....	314,744	97,149	37,247	449,140
2000.....	313,407	97,416	37,245	448,068
2001.....	300,772	94,231	37,066	432,069
Thereafter.....	3,944,486	1,395,252	521,348	5,861,086
Total Minimum Lease Payments.....	5,512,455	1,876,510	705,236	8,094,201
Less unearned income.....	2,661,152	921,908	357,693	3,940,753
Net Investment in Direct Financing Leases.....	\$ 2,851,303	\$ 954,602	\$ 347,543	\$ 4,153,448

The State Public Works Board has entered into various capital lease agreements with the University of California. The State Public Works Board issues revenue bonds to finance the construction of these leased facilities. The State Public Works Board, which is audited by other auditors, records the net investment in direct financing leases at the net present value of the minimum lease payments. At June 30, 1996, these bonds and the related net investment in direct financing leases, totaling approximately \$1.1 billion and \$954 million, respectively, are presented in the enterprise fund type.

NOTE 7.**FIXED ASSETS**

Table 6 is a summary of changes in the General Fixed Assets Account Group for the year ended June 30, 1996.

Table 6
Schedule of Changes in General Fixed Assets
 (Amounts in thousands)

	Balance July 1, 1995	Capitalization Policy Adjustment (Deductions)	Additions	Other (Deductions)	Balance June 30, 1996
Land.....	\$ 1,834,121	\$ 647	\$ 132,978	\$ 9,198	\$ 1,957,254
Structures and improvements..	8,703,204	12,160	1,706,101	333,546	10,063,599
Equipment.....	2,982,180	719,227	340,096	370,318	2,232,731
Construction in progress.....	859,205	—	86,642	171,473	774,374
Total.....	\$ 14,378,710	\$ 732,034	\$ 2,265,817	\$ 884,535	\$ 15,027,958

Table 7 summarizes the fixed assets of the enterprise funds and internal service funds as of June 30, 1996.

Table 7

Schedule of Proprietary Fund Type Fixed Assets

June 30, 1996 (Amounts in thousands)

Fixed Assets	Enterprise	Internal Service
State water projects.....	\$ 3,457,579	\$ —
Toll facilities.....	989,399	—
Other land, improvements, buildings and equipment.....	973,503	573,214
Construction in progress.....	1,246,411	967
Total Fixed Assets.....	6,666,892	574,181
Less accumulated depreciation.....	1,206,472	325,827
Net Fixed Assets.....	\$ 5,460,420	\$ 248,354

NOTE 8.

LONG-TERM OBLIGATIONS

As of June 30, 1996, the State had long-term obligations totaling \$20.5 billion. These obligations are not expected to be financed from current resources in the governmental funds. Long-term obligations consist of the liability for employees' compensated absences, certificates of participation and commercial paper, long-term capital lease obligations, unmatured general obligation bonds, unmatured revenue bonds, and other liabilities. These other liabilities consist of the liability for pension obligations of \$588 million, the liability for workers' compensation claims of \$566 million, amounts owed for lawsuits of \$336 million, and the State's share of the University of California pension liability of \$108 million. These other liabilities do not have any required payment schedules, or will be paid when funds are appropriated. Of the total long-term obligations outstanding, 95% will be paid by the General Fund and 5% by special revenue funds. The changes in the General Long-Term Obligations Account Group during the year ended June 30, 1996 are summarized in Table 8.

Table 8**Schedule of Changes in General Long-Term Obligations**

(Amounts in thousands)

	Balance July 1, 1995	Additions	Deductions	Balance June 30, 1996
Compensated absences payable.....	\$ 1,149,321	\$ 577,040	\$ 570,288	\$ 1,156,073
Certificates of participation and commercial paper....	151,890	130,500	21,995	260,395
Capital lease obligations.....	2,248,201	839,717	94,326	2,993,592
General obligation bonds payable.....	14,843,814	621,893	1,241,535	14,224,172
Revenue bonds payable.....	242,670	80,835	84,110	239,395
Other liabilities.....	1,537,209	934,178	873,821	1,597,566
Totals.....	\$ 20,173,105	\$ 3,184,163	\$ 2,886,075	\$ 20,471,193

NOTE 9.**COMPENSATED ABSENCES**

As of June 30, 1996, the State's estimated liability for compensated absences related to accumulated vacation leave totaled approximately \$1.3 billion. Of this amount, \$1.2 billion is reported in the General Long-Term Obligations Account Group, \$69 million is reported in the proprietary fund types, and \$95 million is reported in the State's General Fund.

NOTE 10.**CERTIFICATES OF PARTICIPATION**

Debt service requirements for certificates of participation, which are financed by lease payments from the General Fund, are shown in Table 9.

Table 9**Schedule of Debt Service Requirements for Certificates of Participation**

(Amounts in thousands)

Year Ending June 30	Principal	Interest	Total
1997.....	\$ 8,350	\$ 6,039	\$ 14,389
1998.....	8,830	5,551	14,381
1999.....	7,183	7,187	14,370
2000.....	7,035	7,632	14,667
2001.....	7,174	7,175	14,349
Thereafter.....	91,323	83,119	174,442
Total.....	\$ 129,895	\$ 116,703	\$ 246,598

NOTE 11.

COMMERCIAL PAPER

The State has two commercial paper borrowing programs: a general obligation commercial paper program of up to \$1 billion and a Department of Water Resources commercial paper program of up to \$150 million. Under these programs, the State may issue commercial paper at prevailing interest rates for periods of not more than 270 days from the date of issuance. To provide liquidity for the programs, the State entered into a revolving credit agreement with commercial banks equal to the authorized amount of commercial paper. At June 30, 1996, there were borrowings of approximately \$131 million of general obligation commercial paper and \$21 million of Department of Water Resources commercial paper outstanding. The proceeds from the issuance of commercial paper are restricted primarily to the construction costs of general obligation bond program projects and of certain State water projects. Because the general obligation commercial paper is retired by long-term general obligation debt, it is recorded in the General Long-Term Obligations Account Group. The Department of Water Resources commercial paper is accounted for in the enterprise fund type.

NOTE 12.

LEASES

The aggregate amount of lease commitments for facilities and equipment in effect as of June 30, 1996, is approximately \$6.5 billion. This amount does not include any future escalation charges for real estate taxes and operating expenses. Most state leases are classified as operating leases, in accordance with the applicable standards. Most state operating leases contain clauses providing for termination. It is expected that in the normal course of business most of these leases will be replaced by similar leases.

The method of calculating the minimum lease commitments was changed to more accurately reflect the minimum commitment amount. Previously, the schedule of minimum lease commitments for operating leases was calculated using the end of the lease date, rather than the date when the State has the right to cancel the lease with one month's notice. As a result, the total minimum lease commitment amount for operating leases was reduced by \$831 million. Under the previous method of calculation, the amount would have been \$1.5 billion. This amount represents the total potential operating lease payments, including the amount for time periods after the date when the State has the right to cancel the lease. The minimum lease commitments are summarized in Table 10.

Table 10**Schedule of Minimum Lease Commitments**

(Amounts in thousands)

Year Ending June 30	Operating Leases	Capital Leases	Total
1997.....	\$ 195,804	\$ 355,660	\$ 551,464
1998.....	154,685	345,425	500,110
1999.....	105,899	336,414	442,313
2000.....	56,267	334,307	390,574
2001.....	36,842	319,627	356,469
Thereafter.....	89,804	4,200,238	4,290,042
Total Minimum Lease Payments.....	\$ 639,301	5,891,671	\$ 6,530,972
Less amount representing interest.....		2,865,432	
Present Value of Net Minimum Lease Payments.....	\$	3,026,239	

The total present value of minimum lease payments is composed of approximately \$3.0 billion reported in the General Long-Term Obligations Account Group, \$313,000 in enterprise funds, and \$32 million in internal service funds. Lease expenditures for the year ended June 30, 1996, amounted to approximately \$604 million.

Included in the capital lease commitments are lease-purchase agreements that certain state agencies have entered into with the State Public Works Board, an enterprise fund type, amounting to a present value of net minimum lease payments of \$2.9 billion. This amount represents 94% of the total present value of minimum lease payments (see Note 6).

Also included in the capital lease commitments are some lease-purchase agreements to acquire electronic data processing and other equipment.

The capital lease commitments presented in Tables 8 and 10 do not include lease-purchase agreements with building authorities that are blended component units. These building authorities acquire or develop office buildings and then lease the facilities to the State. Upon expiration of the leases, title will pass to the State. The State reports the costs of the buildings in the General Fixed Assets Account Group and the revenue bonds and certificates of participation outstanding associated with the buildings in the General Long-Term Obligations Account Group. Accordingly, the State does not include lease receivables or capital lease obligations associated with these buildings in its financial statements pursuant to GASB Statement No. 14.

Table 11 presents a summary of minimum lease commitments for office buildings financed by building authorities.

Table 11**Schedule of Minimum Lease Commitments for Building Authorities**

June 30, 1996 (Amounts in thousands)

Leases with Building Authorities	Present Value of Minimum Lease Payments	Interest	Total Minimum Lease Payments
Los Angeles State Building Authority.....	\$ 166,517	\$ 87,399	\$ 253,916
East Bay State Building Authority.....	99,440	77,732	177,172
California State University Headquarters Building Authority.....	2,058	403	2,461
San Francisco State Building Authority.....	52,006	31,489	83,495
Total.....	\$ 320,021	\$ 197,023	\$ 517,044

NOTE 13.**COMMITMENTS**

The State has made commitments of \$3.1 billion for certain highway construction projects. These commitments are not included as a liability or in the reserve for encumbrances in the special revenue funds because the future expenditures related to these commitments are expected to be reimbursed from local governments and proceeds of approved federal grants. The ultimate liability will not accrue to the State.

As of June 30, 1996, the State had other commitments totaling \$2.9 billion, which are not included as a liability on the balance sheet. These commitments included loan and grant programs for housing, school building aid, and rail system and county jail construction, totaling approximately \$1.9 billion. The total commitments also include approximately \$55 million for the rehabilitation of toll bridge facilities, approximately \$915 million for the construction of water projects and the purchase of power, and up to \$78 million for the operation and maintenance of the lottery's automated gaming system. The commitments are expected to be funded from existing program resources and from the proceeds of revenue and general obligation bonds to be issued.

NOTE 14.**GENERAL OBLIGATION BONDS**

The State Constitution permits the State to issue general obligation bonds for specific purposes and in such amounts as approved by a two-thirds majority of both houses of the Legislature and by a majority of voters in a general or direct primary election. The debt service for general obligation bonds is appropriated from the General Fund. Under the State Constitution, the General Fund is used, first, to support the public school system and public institutions of higher education. The General Fund can then be

used to service the debt on outstanding general obligation bonds. Enterprise funds and certain other funds reimburse the General Fund for any debt service provided on their behalf.

General obligation bonds that are directly related to and expected to be paid from the resources of enterprise funds are included within the accounts of such funds in the financial statements. However, the General Fund may be liable for the payment of any principal and interest on these bonds that is not met from the resources of such funds.

On June 30, 1996, \$7.8 billion of general obligation bonds had been authorized but not issued. This amount includes \$3.3 billion that has been authorized by the applicable finance committee for future issuance in the form of commercial paper notes. The \$7.8 billion excludes \$131 million in bonds that has been issued in the form of commercial paper notes, but has not yet been retired by long-term bonds (see Note 11 for more information on commercial paper programs).

Table 12 summarizes the changes in general obligation bond debt for the year ended June 30, 1996.

Table 12

Schedule of Changes in General Obligation Bond Debt
(Amounts in thousands)

	General Long-Term Obligations	Enterprise Funds	Total
Balance July 1, 1995.....	\$ 14,843,814	\$ 4,233,490	\$ 19,077,304
Additions.....	621,893	—	621,893
Deductions.....	(1,241,535)	(251,205)	(1,492,740)
Balance June 30, 1996.....	\$ 14,224,172	\$ 3,982,285	\$ 18,206,457

Table 13 shows the debt service requirements for all general obligation bonds, including interest of \$10.9 billion, as of June 30, 1996.

Table 13**Schedule of General Obligation Bonds Debt Service Requirements**

(Amounts in thousands)

Year Ending June 30	General Long-Term Obligations	Enterprise Funds
1997.....	\$ 1,900,135	\$ 477,254
1998.....	1,760,072	449,133
1999.....	1,680,939	433,441
2000.....	1,612,316	437,668
2001.....	1,554,711	432,453
Thereafter.....	13,835,340	4,505,581
Total.....	\$ 22,343,513	\$ 6,735,530

Defeasances for Year Ended June 30, 1996: On October 26, 1995, the State issued approximately \$81 million in various purpose general obligation refunding bonds (the "1995 Bonds") for an advance refunding of approximately \$81 million in outstanding general obligation bonds maturing in fiscal year 1995-96 (the "1995 Refunded Bonds"). The State invested the net proceeds of approximately \$81 million in U.S. government securities and placed the securities in an irrevocable trust to pay debt service on the 1995 Refunded Bonds. The monies that the General Fund would otherwise have paid toward debt service on the 1995 Refunded Bonds were used to exercise the State's right to redeem approximately \$83 million in outstanding general obligation bonds issued prior to 1988 (the "Redeemed Bonds") on their interest payment dates of December 1, 1995, January 1, 1996, February 1, 1996, April 1, 1996, and May 1, 1996. As a result, the 1995 Refunded Bonds and the Redeemed Bonds are no longer outstanding.

This advance refunding was undertaken to reduce total debt service payments through January 1, 2001, by approximately \$7 million and to obtain an economic gain (the difference between the present values of the debt service payments on the 1995 Bonds and the Redeemed Bonds) of approximately \$4 million.

On March 19, 1996, the State issued approximately \$160 million in various purpose general obligation refunding bonds (the "1996 Bonds") to advance refund approximately \$139 million of outstanding various purpose general obligation bonds (the "1996 Refunded Bonds"). The net proceeds of approximately \$159 million together with \$6 million received by the State through execution of a forward supply contract were used to purchase U.S. government securities. Those securities are held by the State Treasurer's Office in an irrevocable trust to provide for all future debt service payments and redemption premium on the 1996 Refunded Bonds. As a result, the 1996 Refunded Bonds are considered to be defeased and the liability for those bonds has been removed from the General

Long-Term Obligations Account Group.

The State advance refunded the 1996 Refunded Bonds to reduce its total debt service payments through November 1, 2024, by approximately \$17 million and to obtain an economic gain (the difference between the present values of the debt service payments on the 1996 Bonds and the 1996 Refunded Bonds) of approximately \$10 million.

Prior Year Defeasance: In prior years, the State has defeased certain bonds by placing the proceeds of new bonds in irrevocable escrow in a special trust account with the State Treasury to provide for all future debt service payments on the old bonds. Accordingly, the assets of the trust accounts and the liability for the defeased bonds are not included in the State's financial statements. At June 30, 1996, approximately \$130 million of general obligation bonds outstanding are considered defeased.

NOTE 15.

REVENUE BONDS

Under state law, the California State University and Colleges Headquarters Building Authority (CSUHQ), the Los Angeles State Building Authority (LASBA), and the San Francisco State Building Authority (SFSBA) may issue revenue bonds. These revenue bonds are included in the General Long-Term Obligations Account Group. The CSUHQ issues bonds for the purpose of acquiring and constructing buildings for public education purposes, including a headquarters building for the trustees. The LASBA and SFSBA issue bonds for the purpose of constructing state office buildings.

A lease with the Trustees of the California State University pays the principal and interest on the revenue bonds issued by the CSUHQ. Leases with the State pay the principal and interest on the revenue bonds issued by LASBA and SFSBA (see Note 1). The primary government has no legal liability for the payment of principal and interest on the revenue bonds of the CSUHQ, the LASBA, and the SFSBA.

Revenue bonds that are directly related to and expected to be paid from the resources of enterprise funds are included within the accounts of such funds. Principal and interest on revenue bonds are payable from the pledged revenues of the respective funds of the authorities and agencies listed in the next section of this note. The General Fund has no legal liability for payment of principal and interest on revenue bonds.

The Department of Water Resources, the California State University, the California Transportation Commission, and the State Public Works Board issue revenue bonds to acquire, construct, or renovate state facilities or to refund outstanding revenue bonds in advance. The Department of Veterans Affairs issues revenue bonds allowing the State to make loans to finance the acquisition of farms and

homes by California veterans. When the farm and home loans financed by the revenue bonds are fully paid, the farms and homes become the property of private individuals.

Table 14 shows revenue bonds outstanding as of June 30, 1996.

Table 14

Schedule of Revenue Bonds Outstanding

June 30, 1996 (Amounts in thousands)

General Long-Term Obligations:	
Los Angeles State Building Authority.....	\$ 179,355
San Francisco State Building Authority.....	58,635
California State University and Colleges Headquarters Building Authority.....	1,405
Total General Long-Term Obligations.....	239,395
Enterprise Funds:	
State Public Works Board.....	5,431,442
Department of Water Resources.....	2,225,329
Department of Veterans Affairs.....	374,975
California State University.....	330,308
California Transportation Commission.....	56,850
Total Enterprise Funds.....	8,418,904
Total Revenue Bonds.....	\$ 8,658,299

Table 15 shows the debt service requirements for revenue bonds as of June 30, 1996. The debt service requirements primarily represent bond principal payments. The Table also includes certain unamortized refunding costs, premiums, discounts, and other costs.

Table 15

Schedule of Revenue Bond Debt Service Requirements

(Amounts in thousands)

Year Ending June 30	General Long-Term Obligations	Enterprise Funds
1997.....	\$ 22,531	\$ 257,513
1998.....	22,846	296,929
1999.....	22,868	327,866
2000.....	22,891	337,560
2001.....	22,903	345,741
Thereafter.....	242,447	7,118,748
Total.....	\$ 356,486	\$ 8,684,357

Defeasances for Year Ended June 30, 1996: On September 1, 1995, the State Public Works Board issued approximately \$16 million in revenue bonds to advance refund approximately \$18 million of outstanding 1986 Series A bonds. The net proceeds of approximately \$16 million (after payment of approximately

\$400,000 in underwriting fees, insurance, and other issuance costs) plus an additional \$4 million from funds and accounts established under prior indentures (CSU, 1986 Series A) were deposited in an irrevocable trust with the State Treasurer to provide for all future debt service payments on the refunded bonds. As a result, the 1986 Series A bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements, as well as the related investments. The State Public Works Board advance refunded the 1986 Series A bonds to reduce its total debt service payments over the next 10 years by approximately \$5 million and to obtain an economic gain (the difference between the present values of the debt service payments on the old and new debt) of approximately \$4 million.

On October 2, 1995, the State Public Works Board issued approximately \$28 million in revenue bonds to advance refund approximately \$37 million of outstanding 1986 Series A bonds. The net proceeds of approximately \$28 million (after payment of approximately \$700,000 in underwriting fees, insurance, and other issuance costs) together with other available monies of approximately \$11 million were deposited in an irrevocable trust with the State Treasurer to provide for all future debt service payments on the refunded bonds. As a result, the 1986 Series A bonds are considered to be defeased and the liability for those bonds has been removed from financial statements, as well as the related investments. The State Public Works Board advance refunded the 1986 Series A bonds to reduce its total debt service payments over the next five years by approximately \$14 million and to obtain an economic gain (the difference between the present values of the debt service payments on the old and new debt) of approximately \$2 million.

On April 23, 1996, the California State University Board of Trustees (University) issued approximately \$23 million in San Jose Student Union Revenue Bonds to advance refund approximately \$23 million of outstanding San Jose Student Union Series B and C bonds. The net proceeds of approximately \$23 million (after payment of \$77,000 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with the State Treasurer to provide for all future debt service payments on the refunded bonds. As a result, the Series B and C bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements, as well as the related investments. The University advance refunded the Series B and C bonds to reduce its total debt service payments over the next 24 years by approximately \$6 million and to obtain an economic gain (the difference between the present values of the debt service payments on the old and new debt) of approximately \$2 million.

On April 23, 1996, the University also issued approximately \$138 million in Housing System Revenue Bonds to advance refund approximately \$135 million of outstanding Housing System Series

AD, AI, AJ, AK, AL, AM, AN, AP, AQ, and AR bonds. The net proceeds of approximately \$138 million (after payment of approximately \$500,000 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with the State Treasurer to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements, as well as the related investments. The University advance refunded the Series AD, AI, AJ, AK, AL, AM, AN, AP, AQ, and AR bonds to reduce its total debt service payments over the next 26 years by approximately \$18 million and to obtain an economic gain (the difference between the present values of the debt service payments (on the old and new debt) of approximately \$8 million.

In December 1995, the Los Angeles State Building Authority issued approximately \$81 million in Revenue Bonds to advance refund approximately \$82 million of outstanding 1988 Series A bonds. The net proceeds of approximately \$80 million (after payment of approximately \$1 million in underwriting fees, insurance, and other issuance costs) and a premium of approximately \$246,000 were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with the State Treasurer to provide for all future debt service payments on the refunded bonds. As a result, the 1988 Series A bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements, as well as the related investments. The authority advance refunded the 1988 Series A bonds to reduce its total debt service payments over the next 10 years by approximately \$10 million and to obtain an economic gain (the difference between the present values of the debt service payments on the old and new debt) of approximately \$3 million.

Prior Year Defeasances: In prior years, the Department of Water Resources, the State Public Works Board, the California Transportation Commission, the California State University, and the Los Angeles State Building Authority defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust account to provide for all future debt service payments on the old bonds. Accordingly, the assets and liabilities for the defeased bonds are not included in the financial statements. On June 30, 1996, \$1.7 billion of revenue bonds outstanding are considered defeased.

NOTE 16.

MAJOR TAX REVENUES

Tax revenues for the year ended June 30, 1996, are presented in Table 16.

Table 16**Schedule of Major Tax Revenues**

June 30, 1996 (Amounts in thousands)

	General Fund	Special Revenue Funds	Expendable Trust Funds
Personal income.....	\$ 20,845,440	\$ —	\$ —
Sales and use.....	15,792,629	3,463,261	—
Bank and corporation.....	5,741,239	—	—
Unemployment insurance.....	—	—	3,484,610
Disability insurance.....	—	—	1,908,781
Insurance.....	1,138,842	—	—
Inheritance, estate, and gift.....	670,475	—	—
Cigarette and tobacco.....	171,221	455,575	—
Other.....	299,116	228,366	55,262
Total.....	\$ 44,658,962	\$ 4,147,202	\$ 5,448,653

NOTE 17.**FUND EQUITY****A. Expendable Trust Funds**

The fund balance Reserved for Other Specific Purposes of \$5.6 billion represents assets of the Unemployment Fund and other expendable trust funds that are not available for future appropriations other than those for which the funds were established.

B. Fund Deficits

The following funds had deficits at June 30, 1996, as shown in Table 17.

Table 17**Schedule of Fund Deficits**

June 30, 1996 (Amounts in thousands)

	Capital Projects Funds	Internal Service Funds
Higher Education Construction.....	\$ 11,866	\$ —
Building Authorities.....	3,378	—
Architecture Revolving.....	—	8,571
Water Resources Revolving.....	—	17,665
Total.....	\$ 15,244	\$ 26,236

C. Changes to Contributed Capital

The changes in the State's contributed capital accounts for its proprietary funds are shown in Table 18.

Table 18**Schedule of Changes in Contributed Capital**

(Amounts in thousands)

Sources	Enterprise	Internal Service	Total
Balance, July 1, 1995.....	\$ 214,792	\$ 110,271	\$ 325,063
Government contributions.....	1,455	1,968	3,423
Balance, June 30, 1996.....	\$ 216,247	\$ 112,239	\$ 328,486

NOTE 18.**RISK MANAGEMENT**

The State has elected, with a few exceptions, to be self-insured against loss or liability. Primarily, the exceptions are when a bond resolution or a contract requires the State to purchase commercial insurance for coverage against property loss or liability. There have been no significant reductions in insurance coverage from the prior year. In addition, there has been no insurance settlement in the last three years that has exceeded insurance coverage. The State generally does not maintain reserves. Losses are covered by appropriations from each fund responsible for payment in the year in which the payment occurs. All claim payments are on a pay-as-you-go basis. The potential amount of loss arising from risks other than workers' compensation benefits are not considered material in relation to the State's financial position.

Workers' compensation benefits for self-insured agencies are initially paid by the State Compensation Insurance Fund. The State Compensation Insurance Fund estimated the liability for future workers' compensation claims against the State's self-insured agencies to be approximately \$733 million as of June 30, 1996. The liability represents the estimated total cost of all open and known disability claims as of June 30, 1996. The estimates are based on established claims criteria such as age of the injured, occupation, and type of injury. It is included in the accompanying financial statements. Of the total, \$89 million is included in the General Fund, \$58 million in the special revenue fund type, \$20 million in the proprietary fund types and \$566 million in the General Long-Term Obligations Account Group. Changes in the claims liabilities during year ended June 30, 1996 are shown in Table 19.

Table 19**Schedule of Changes in the Liability for Workers' Compensation Claims**

Year Ended June 30, 1996 (Amounts in thousands)

	1996	1995
Unpaid claims, beginning.....	\$ 753,000	\$ 773,000
Incurring claims.....	170,000	161,000
Claim payments.....	(190,000)	(181,000)
Unpaid claims, ending.....	\$ 733,000	\$ 753,000

NOTE 19.**SEGMENT INFORMATION**

Selected financial information by enterprise fund activity for major segments is shown in Table 20. The primary sources of enterprise fund revenues are as follows:

Housing Loan: Interest charged on contracts of sale of properties to California veterans and to California National Guard members; loan origination fees; and interest on investments.

Water Resources: Charges to local water districts, sale of excess power to public utilities, and interest earned on investments.

School Building Aid: Interest charged on loans to school districts for acquisition, construction, or rehabilitation of classroom facilities; and income from the rental of portable classrooms to school districts.

Toll Facilities: Toll fees and interest earned on investments.

California State University: Charges to students for housing and parking; student fees for campus unions, health centers, and self-supporting educational programs; and interest earned on investments.

Leasing of Public Assets: Rental charges from the lease of public assets and interest earned on investments.

State Lottery: Sale of lottery tickets.

Harbors and Watercraft: Fees related to boating activities.

Health Facilities Construction Loan Insurance: Construction project fees and income from operations or proceeds of sales of property acquired by default of borrowers.

Other Enterprise: Canteen revenues and processing fees charged by various other departments.

Table 20

Schedule of Enterprise Fund Activity by Separate Major Segments

As of and for the Year Ended June 30, 1996 (Amounts in thousands)

	Housing Loan	Water Resources	School Building Aid	Toll Facilities	California State University	Leasing of Public Assets	State Lottery	Harbors and Watercraft	Health Facilities Construction Loan Insurance	Other Enterprise
Operating revenue.....	\$ 292,277	\$ 480,720	\$ 25,676	\$ 141,227	\$ 240,689	\$ 330,536	\$ 2,292,325	\$ 14,316	\$ 16,936	\$ 74,434
Depreciation.....	849	57,902	3,720	—	—	—	10,489	—	—	2,226
Amortization (recovery) of deferred charges	—	(35,490)	—	430	—	15,279	1,803	—	—	—
Operating income (loss).....	(8,092)	188,226	(19,672)	103,805	62,295	33,842	798,437	(21,414)	1,848	(1,929)
Operating transfers in.....	11,144	—	—	—	23,824	1,066	—	28,548	—	16,247
Operating transfers out.....	11,144	—	20,477	12,051	43,403	1,064	—	—	—	517
Net income (loss).....	(2,619)	44,477	(18,847)	111,425	34,585	33,844	—	20,067	1,848	15,480
Grants received.....	—	—	—	—	481	—	—	—	—	—
Grants provided.....	—	—	—	13,276	—	—	—	—	—	—
Change in contributed capital										
Additions.....	—	—	—	—	718	—	—	—	—	737
Property, plant, and equipment										
Additions.....	—	269,393	—	39,980	36,186	—	29,816	40	—	2,315
Deductions.....	849	57,902	3,720	—	—	—	10,489	—	—	2,226
Net working capital.....	1,327,046	111,209	19,086	671,488	309,810	1,003,964	2,116,890	9,236	144,397	59,749
Total assets.....	3,786,727	4,957,953	348,988	1,702,739	1,056,304	5,703,359	2,754,760	281,652	145,642	148,548
Bonds and other long term liabilities.....	3,406,670	3,388,450	18,000	63,010	342,820	5,431,442	2,186,956	—	182	61,897
Total equity.....	289,929	1,092,370	268,231	1,622,318	639,883	98,907	—	206,059	144,223	53,569